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YCharts: With An Eye On Fees And Returns, More Clients Are Looking For a New Advisor

As portfolio performance becomes the top concern among clients, one in four have either thought about switching, or switched, financial advisors in the last three years, a YCharts survey found.

Rob Burgess | Jan 17, 2023

The COVID-19 pandemic radically shifted how clients and financial advisors communicate with one another in ways that are predicted to continue for years to come.

Just over a majority of clients meet with their advisors both virtually and in in-person. That's up from a third who met their advisors in a hybrid fashion before the pandemic.

While the modes of communication have changed, so have the contents of those discussions. Portfolio performance concerns are up sharply, according to a recent survey of advised clients.

And what clients have been hearing, or not hearing, has more of them thinking about looking elsewhere for advice. Around one in four have either thought about switching or switched financial advisors in the last three years.

In December 2019, YCharts surveyed clients of financial advisors about their advisors' communication styles and related preferences. Three years and one global health crisis later, the market data technology company polled 671 clients on how those attitudes had changed. The findings were recently released in a report, "How Can Advisors Better Communicate with Clients? 2022 Edition."

The survey results found a major shift since the pandemic began over concerns around portfolio performance. In 2019, YCharts' survey respondents placed it as their third-most important concern when picking a new financial advisor. It has since shot to the top, with "accessibility or availability to me" and "deep understanding of me and my goals" rounding out the top three concerns most important to clients.

There is a good reason for the change, said John Boyd, founder and lead wealth advisor of MDRN Wealth in Scottsdale, Ariz., including major market sell-offs in the bond market over the last two years.

"Before these sell-offs, advisors typically leaned on assets like bonds to mitigate risk. But we saw bonds get beat up in early 2020 when the COVID-19 sell-off occurred and then we witnessed a year in 2022 where bonds sold off more than 10%," said Boyd. "Clients are rightfully asking themselves, 'Do concepts like the 60/40 work anymore? Can I really trust my advisor?' This is one reason why we lean on alternatives to complement stocks and bonds."

Connor Kitko, director of product marketing at YCharts, agreed that portfolio performance likely became more important in 2022 because of the significant market corrections.

"Performance is always important in clients' eyes, and might often be reduced to a simple question, 'Do I have more money now than last time I met with my advisor?' While it may seem like an overreaction given the market's performance in 2020 and 2021, coaching clients away from short-term thinking is always challenging for advisors and a market correction makes it only more so," said Kitko.

"It's important to remember, too, how new retirees have been affected by the boom and bust," Kitko said. "Such drastic volatility, plus media coverage of the Fed and high inflation, can weigh heavily on decisions to retire or continue working, and many soon-to-be retirees have likely been forced to

change their plans. Of note, our survey found that clients over 60 see an even stronger connection between portfolio performance and satisfaction with their advisor.”

Inflation concerns fuel a sharper client focus on investment performance, said Curtis J. Crossland, managing member of Suttle Crossland Wealth Advisors in Scottsdale.

“Advisors tend to think in terms of years, and since markets tend to have more volatility in the short term, advisors aren't phased by it as much as clients,” said Crossland. “I think the heightened concern lately has a lot to do with coming off a once-in-a-lifetime pandemic, combined with ongoing conflict involving a nuclear power, inflation and recession fears. Long term, bonds tend to be negatively correlated with stocks. In the short term, this isn't necessarily always the case as we've seen recently. The Fed's decision to raise interest rates to combat inflation means the value of bonds and bond funds in secondary markets fall. This has to do with the relationship between how interest rates move and yields to maturity on bonds. Combine that with the pullback on stock values, and you have both asset classes moving negative in 2022. That would get nearly anyone concerned about how their portfolio is performing.”

Eric Amzalag, a financial advisor and owner of Peak Financial Planning in Woodland Hills, Calif., said 2022 was “a rather shocking year for many clients (who) had gotten used to the easy money, asset-inflationary environment of the 2010s.”

“I believe that when individuals' foundational beliefs are shaken, that markets and asset prices always go up … they become less resilient to market downturns, which are a natural part of the investing process,” said Amzalag.

Ron Strobel, certified financial planner with Retire Sensibly in Meridian, Idaho, said uncertainty in the markets was at least in part due to a political polarization that is the “highest it has been in my lifetime.”

“Clients are mixing political beliefs with their expectations on how the market will perform. We have heard a lot of comments from both sides about how one party or the other is going to crash the markets, etc.,” said Strobel. “There is very little middle ground right now and each party sees the opposing party's views as radical.”

With the current downturn excluded, Strobel said the “impressive performance of cryptocurrency and real estate” had also caused investors to question their stock and bond portfolios.

“A retiree with a more conservative portfolio saw fairly small gains compared to the massive gains in real estate and crypto,” said Strobel. “It left a lot of them wondering if it made sense to continue with their more traditional portfolios or to shift to those other asset classes.”

The modes of preferred communication with financial advisors have also changed among advisors. Email has become more favored among clients, said YCharts' Kitko. In their 2022 survey, 73% of respondents indicated email as a preferred communication method, up from 66% in their 2019 survey. Additionally, just 28% of respondents currently meet with their advisors exclusively in person, down from 49% before COVID-19.

“The convenience for clients coupled with the ability for advisors to expand their reach and increase efficiency may explain the staying power of virtual meetings,” said Kitko.

This is another example of generational differences among clients that he has noticed, Strobel added.

“Lately, we have seen our older and retired clients begin to prefer texts and Zoom meetings. They have warmed up to texts since it is a good way to communicate with their grandchildren and Zoom has been widely used by their healthcare providers, so it makes sense to also use those methods with their financial planner,” said Strobel. “Our millennial clients who are still working are generally more fond of emails than texts. I find that millennials are overall less fond of Zoom than our older clients. They prefer an email that they can respond to when they have time due to their busy work/family schedules or a quick phone call. Zoom meetings are often seen as a commitment that requires them to spend an hour or so talking to us when they might have kids in the background or work calls, which can interfere with Zoom.”

Crossland said their clients tended to prefer communication over the phone and, to a lesser degree, video calls like Zoom, and then email.

“It seems to be a love-it-or-leave-it relationship with in-person visits,” said Crossland. “Even when I've discussed in-person meetings with clients, most are just fine with the phone or Zoom. The phone is the most interesting as you get to hear the tone and timbre of the other person but have no idea of their body language or setting. I think some people feel they're too vulnerable in person if they are getting news that isn't to their liking. Email tends to be an OK medium to communicate quick ideas, but often ends up being a springboard to a phone call.”

George Jameson, a financial advisor with Blackbridge Financial in Columbia, S.C., said most of their clients still prefer to meet face-to-face for annual reviews.

“I believe it facilitates more effective communication, helps build strong relationships and increases engagements,” said Jameson. “I used to do all meeting in person but found that clients prefer shorter meetings either with Zoom or over the phone. Clients still use email for certain communications, but many clients today prefer to text you with questions, which can cause compliance issues unless your text messages are monitored.”

More important than how a client meets with an advisor, though, is the frequency, content and expectations of those meetings, said David Edmisten, founder and lead Advisor of Next Phase Financial Planning in Prescott, Ariz.

“Studies show that clients often feel they do not hear from their advisor enough,” said Edmisten. “Additionally, meetings that are haphazard, or do not address a client’s core concerns, are less likely to leave a client feeling satisfied. When there are not specific, defined guidelines for how often a client will connect with their advisor, when the content of the meetings is not well defined, or when a client’s core concerns aren’t addressed proactively, clients can tend to turn their attention more to question the performance of their portfolio and the fees they are paying the advisor. This may not necessarily mean that the advisor has not managed performance or fees well for the client; it just means that, in absence of the advisor clearly demonstrating their value to the client, performance and fees are often the easiest thing to measure.”

Edmisten said in their firm, they have a clearly defined communication and meeting process stated upfront for all our clients.

“We actually list our process on our website so that prospective clients know what to expect if they chose to work with us,” said Edmisten. “We commit to two formal planning meetings each year with specific financial planning topics to be covered at each meeting. We have quarterly updates on performance, the markets, legislative changes and planning information on a regular cadence. And we are available as needed to address critical issues for our clients outside of our regularly scheduled interactions. As studies have shown, connecting with clients frequently, both in meetings and clear email communications, with clearly defined processes that address the most important concerns for the client, are vitally important in providing great service to our clients.”

The pandemic and subsequent market drop-off also seems to have accelerated clients looking for new financial advisors. For clients under the

age of 60, 27.3% switched advisors over the past three years, and 29.8% considered it.

One clue as to advisor dissatisfaction might be found in the clients increased concern over fees. In 2019, 26% of clients with $500,000 or less in assets under management, and 20% of those with more, listed it as a reason to change advisors. By 2022, those figures were at 45% and 38% respectively.

Fees are always important to clients, but are especially hard to stomach in a down market, said Kitko. “Investors react adversely to fees because their account balances are already on the decline due to market performance,” said Kitko.

In the latest survey, 3% of respondents switched to a robo advisor since the COVID-19 pandemic and another 8.1% considered switching, “more evidence that investors may be trying to limit fees they pay for investment management,” said Kitko.

Strobel said he has have not seen an increase in fee sensitivity with regards to investments, “although today's investor does seem to be more in tune with the costs they pay.”

“We have seen extreme price sensitivity to account-related fees,” he said. Wire fees, overdraft fees, transaction costs and annual account fees are "absolutely toxic right now to clients."

"A $25 fee on a seven-figure portfolio can cost the advisor the entire client relationship even though it is minuscule in comparison to the overall account,” he said.

Changes in consumer attitudes toward fees has been growing for years, said Crossland, as technology has had a deflationary impact on most professional services.

“If it's easier and cheaper to do the work, then businesses are going to leverage lower cost to attract customers,” said Crossland. “This narrative has made its way around via social media and marketing campaigns from large firms trying to win people over with lower cost. Now it's to be expected. My firm in particular leverages technology and remote capabilities to provide comprehensive planning and asset management at a low-cost. It also seems that people tend to want to pay less when possible. If performance has been struggling or stagnant, it's easy for people to begin questioning what they're paying for and look around, especially if their advisor isn't communicating to a satisfactory level.”

Increased options have increased clients’ concerns regarding both portfolio performance and fees, said Kristy Jiayi Xu, of Global Wealth Harbor in Walnut Creek, Calif.

“Clients who choose to pay a management fee to financial advisors are those who have high portfolio performance expectations,” said Xu. “There are many cheaper options out there. They can trade by themselves through online trading platforms and use robo advisor to develop a basic portfolio and read investment advice online for free. Advisors differentiate themselves from those standardized services by offering customized professional services to clients, but clients are not financial services professionals and the only easy way for them to evaluate advisors’ professionalism is by looking at quantitative performance. Also with the current economy, a lot of businesses experienced waves of job cutting, and emergency savings are important to clients. Clients who allocate additional cash into their investment portfolio instead of toward their emergency savings usually have high-performance expectations.”